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CIA/ONE / STAFF MEM / 8-64

CENTRAL INTELLIGENCE AGENCY

OFFICE OF NATIONAL ESTIMATES

28 January 1964

STAFF MEMORANDUM NO 8-64 (Internal ONE Working Paper --
CIA Distribution Only)

SUBJECT: Implications of the Panama Canal Crisis

SUMMARY

US-Panamanian relations will continue to be explosive until a modus vivendi concerning the canal is established: this will require some satisfaction for Panama's claims. The proximity (May) of Panamanian elections -- which will be colored by xenophobia -- exacerbates the situation and increases the possibility of new demonstrations.

The Castro-Communists vigorously exploited the crisis, and it has sharply improved their prospects. Furthermore, the longer it goes unresolved, the more they stand to gain. Panama has long been a target of Castro's subversive attention, and we believe that he would almost certainly be willing and able to supply clandestinely small amounts of aid and arms if the Castro-Communists should undertake armed subversion.

In Latin America generally, the crisis has somewhat hurt the US image, and the Latin American governments, to one degree or another have moderately supported Panama's "national aspirations." Among the masses the reaction has been less restrained, and a residue of anti-US sentiment will remain.

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I. SETTING

1. Ever since the original 1903 treaty gave the US canal rights, the Panama Canal has complicated US-Panamanian relations and dominated Panama's political and economic life. Several incidents, including flag riots in 1959,¹ have highlighted Panama's dissatisfactions with US policies in the canal.² Out of conviction, necessity, or opportunism, all Panamanian politicians voice these dissatisfactions, and elections often degenerate into contests where each candidate tries to sound more nationalistic than his opponent. The Panamanian elite has also been adept in using the canal for their own advantage when dealing with the many US agencies involved in Panama. In this atmosphere, the Castro-Communists can exploit nationalism for their own ends; the relative affluence and colonial attitudes of many American residents of the Zone aid their efforts. Overall, the canal has made the US-Panamanian relationship a fragile and combustible one. The implications for the US are far-reaching and unpleasant.

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II. IMPLICATIONS FOR US-PANAMANIAN RELATIONS

2. Now swept away is the rather substantial improvement in relations that had taken place since the 1959 riots. Extreme nationalism is now ascendant, and no Panamanian leader can afford to ignore it. This is the main reason behind the vacillations of Panamanian President Roberto Chiari; his successor will be confronted by the same pressure. Indeed, the proximity of elections (May) exacerbates the situation and increases the possibility of new anti-US demonstrations.

3. Hence, Panamanian nationalism will remain at a heightened level, responsive to the slightest affront, real or imagined. And as matters now stand, such "affronts" will almost certainly occur. They may be caused by Zonians, or Panamanians, or Castro-Communists -- or by accident. In such a volatile situation we cannot judge what specific spark may cause explosions nor can we say how strong the Panamanian reaction will be. We can estimate, however, that unless present trends are reversed, there is a good chance that Panamanian reactions and demands will tend to become progressively stronger.

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4. Although the current crisis did not create the problems over the canal, it did bring them to a head, and there will be no real improvement in relations until there is a modus vivendi concerning them. Without prospects for basic changes in the canal treaty, it will be extremely difficult for the Panamanian government to give ground before the elections. Even then, there will sooner or later be renewed Panamanian claims concerning the canal, for in the long run Panama will not rest its case until it has complete sovereignty.

5. There will be increased danger of the situation getting out of hand. The Panamanian security force, the Guardia Nacional (GN), is hampered by poor transportation and communication equipment; it could not maintain control in the event of widespread and sustained rioting. The GN numbers about 3,000 men; there is no other armed force. Well over fifty percent of the GN is stationed in areas adjacent to the Canal Zone. President Chiari, realizing the danger of new riots or even a coup attempt, has authorized a 1400-man increase for the GN. In the Zone itself the US has almost 10,000 troops; they almost certainly will be able to maintain security there.

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III. IMPLICATIONS FOR PANAMANIAN POLITICS

6. Each candidate in the forthcoming election will be judged largely on his stand concerning the canal, and the election will be colored by xenophobia. The normal fluidity of Panamanian politics has been magnified by this issue, making it impossible at this time to estimate the outcome of the election.

7. Only three of the seven presidential candidates are really in contention for the post. They are:

a. Marco Robles, a member of the conservative National Liberal Party* and the candidate of the parties in Chiari's governing coalition (Chiari cannot succeed himself). Robles, who was not Chiari's choice for the nomination, is an unimaginative, but anti-communist candidate; in the Panamanian context, he is not anti-US. He faces, however, the problem of how to take advantage of the wave of nationalism behind the government's strong stand, without also being swept away in the backwash if

* See Annex B for a complete listing of Panama's many political parties and the coalition they support.

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Chiari fails to show any progress in gaining concessions from the US. No matter what, Robles will be judged in part by the success or failure of Chiari's efforts, and his prospects will rise or fall accordingly. There may be some pressure on Robles to withdraw his candidacy to enable the governing coalition and the OA (at least part of it) to unite behind a single candidate.

b. Juan ~~de~~ Arco Galindo, a member of the conservative National Patriotic Coalition and candidate of the Opposition Alliance (OA). Galindo represents a different sector of Panama's traditional ruling elite than Robles and may be more competent than the mediocre Robles. He faces the problem of keeping the OA together. Like most Panamanian coalitions, the OA is an amalgam of personalistic parties; some of its leaders are unsavory opportunists, who would complicate matters if Galindo were elected or who might even desert him before the election. Before the crisis, there had been indications that the OA might dissolve and its parties align themselves with other candidates. If the OA holds together, it would be a formidable

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contender;* it would have its nationalistic stand without bearing -- as the government will -- the consequences. It would also be able to offer an alternative course to the canal issue, while the governing coalition is more or less forced to stay with what it has already demanded.

c. Arnulfo Arias, leader and candidate of the nationalistic Panamenista Party. As usual, Arias is the enigma in Panamanian politics. He is an opportunist, capricious in his policy, and little faith can be put in his public utterances. He has been president twice, and twice deposed. Nevertheless, his demagoguery and nationalist extremism gain him a large following among the lower classes. Despite his own anti-US record, Arias criticized Chiari for his inept handling of the crisis which permitted it to reach such an extreme stage, and before the crisis he had stated that the canal should not be a major issue in the election. This appears, however, to have been an attack on the government, not pro-US sympathy.

* The OA has a small advantage over the governing coalition on the National Electoral Board. Since this body supervises the courting of votes and arbitrates voting disputes, the OA's control could be important in a close election.

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8. But Arias' candidacy has been somewhat hurt by this equivocal stand as well as by the other parties staking out strong claims on his main appeal -- nationalism. Moreover, Arias, who is hampered by a lack of funds (partly because he will not commit his own wealth), is not likely to remain a candidate unless he thinks his chances are good.

9. A Coup? While we cannot discount the possibility of a coup either from the right or left, we do not think it likely. All the groups, excepting that of Arnulfo Arias, originally rallied behind Chiari's hard stand, and, even though they are now backing away from Chiari, it will take some time for his support to dissipate to the point that a coup would have a good chance for success.

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IV. IMPLICATIONS FOR THE CASTRO-COMMUNISTS

10. There are two Castro-Communist groups in Panama (both illegal): the Party of the People (PDP) and the Vanguard of National Action (VAN). The PDP, which is the orthodox Communist party, may have over 500 hard-core members and some 1,000 regular sympathizers. The size and composition of the rabidly pro-Castro VAN is undetermined, but it probably does not have over a few hundred members. Although there is little harmony between them, the PDP and VAN worked together during the crisis. The two groups' influence is greatest among the students, the urban slum masses, and the rural labor force; VAN is particularly active in the cities adjacent to the canal zone. The Communists also have some influence in a few of the legal parties, particularly the Socialists. One of the main assets of the extremists is the ubiquitous, highly vocal and inflammatory, pro-Castroist deputy, Thelma King, who continually encourages violence and anti-US action.

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11. Panama has long been a target of Castro's subversive attention; in 1959 there was an abortive landing of Cuban-sponsored "revolutionaries." Fidel's interest, apart from his predilection for revolution in general, is further whetted by the opportunities the canal offers in attacking the "imperialist American Colossus." In addition, the VAN shows more stomach for revolutionary activities and terrorism than do most of Castro's assets elsewhere in Latin America. Havana beams a steady wave of propaganda at Panama, and well over a hundred extremists, mostly VAN members, have received indoctrination and revolutionary training in Cuba. Castro has provided them with money and possibly arms. During his latest visit with Khrushchev, Castro almost certainly cited Panama as an example of the kind of situation which should be exploited by an activist revolutionary effort. Upon his return from Moscow, Fidel called for the Latin American states to give economic aid to Panama; he also offered unilateral economic aid from Cuba if Panama desired it. We believe that he almost certainly would be willing and able to supply clandestinely small amounts of aid and arms if the Castro-Communists should launch a guerrilla offensive in the countryside or a campaign of terrorism in the cities.

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12. In any event, the Communists and pro-Castroites, despite their small numbers, exploited the canal crisis. They did not cause the crisis, but, being organized for potential trouble, they played a significant role in extending the scope of the subsequent disorders: they not only have capitalized on the outpouring of nationalism, but they bear a large responsibility for maintaining it at a fever pitch. This has contributed to Chiari's intransigent stand in demanding a new canal treaty.

13. The gains made by the Castro-Communists during the crisis are likely to be lasting ones, especially if Panama is unable to obtain any concessions from the US. They now have a certain aura of respectability, most notably among the lower classes, and they are benefiting from the latent anti-US sentiment unleashed by the crisis. For many Panamanians the Communist charges of Yankee imperialism and brutality have been proved. Furthermore, the Castro-Communists stand to profit from the emphasis on nationalism during the election campaign and from any anti-US actions that might ensue, regardless of their origin. In short, the crisis has improved sharply both the short and long run prospects of Castro-Communists in Panama, and the longer it goes unresolved, the more they stand to gain.

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V. IMPLICATIONS FOR THE US ELSEWHERE IN LATIN AMERICA

14. The canal crisis has hurt somewhat the US image in Latin America. The official reaction of the Latin American countries has consisted for the most part of carefully worded expressions of regret over the violence in Panama. Nevertheless, despite their apprehension concerning Chiari's unyielding attitude, they have moderately supported Panama's "national aspirations." The response of the non-governmental segments has not been as restrained, and sympathy for the Panamanians has been more positively stated. In effect, the crisis has forced the other Latin American states to take a stand, and, whether out of conviction or from a desire to tweak Uncle Sam's nose, they have lined up, to one degree or another, with Panama.

15. Cuba and the Castro-Communists in Latin America have lost no time in rallying to the Panamanian cause, picturing the Panamanian incident as just the beginning of a hemisphere-wide uprising against US imperialism. Those wanting to derigrate the US have used the crisis as an example of the callousness of US imperialism and its unconcern for the "legitimate" desires of Latin Americans. Even when Latin American attention to the crisis wanes, there will be a residue of anti-US sentiment among the masses.

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ANNEX A

Minimum Aspirations of Panama

1. Elimination of perpetuity clause with reversion to Panama of Canal installation on fixed terms.¹
2. Fair sharing of Canal revenues.²
3. Establishment of mixed courts and revision of present legislation in the Zone to permit Panamanian legislation to operate in certain fields such as family law.¹
4. Recognition of Spanish as official language in the Zone.
5. Cooperation by Zone in enforcing Panamanian laws in the Zone.¹
6. Establishment of Panamanian jurisdiction over ports of Balboa and Cristobal.
7. Display of Panamanian flag on all public buildings in the Zone and on ships transiting the Canal.
8. Use of Panamanian postage stamps in the Zone.¹
9. Issuance of exequaturs to foreign consuls in the Zone by the Panamanian rather than the Canal Zone Government.¹
10. Effective equality of opportunity and treatment for Panamanian and U.S. workers in the Zone, primarily to achieve a reduction in the number of positions reserved to US citizens as "security" positions.

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ANNEX A (Cont'd)

11. Inclusion of clause on arbitration as the means for solving controversies over treaty interpretation.¹
12. Cooperation of the U.S. for defense of Panamanian civilian population against nuclear attack.
13. Regulation of commercial activities in the Zone through a Treaty of Commerce bearing in mind the objective of ensuring to Panama the full enjoyment of all types of benefits derived from the operation of the Canal.

1 Would require a fundamental treaty revision.

2 An increase in the annual payment to Panama could be from a flat increase in the annuity; a percentage of the gross tolls revenue; or a payment of a fixed amount per Panama Canal net ton; an increased annual payment from the Canal Company would require authorization by Congress; barring authorization, it would come from appropriated funds. Payments by the Canal Company of increased amounts for other types of expenses, e.g., wage costs, do not require authorizing legislation.

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ANNEX B

Political Parties¹

<u>Governing Coalition</u>	<u>Opposition Alliance</u>	<u>Independent</u>
² National Liberal Party	² National Patriotic Coalition	² Panamenista Party
² Republican Party	² Liberal Civil Resistance Party	Socialist Party
² National Liberation Movement	² Third National Party	National Civic Party
Progressive Party	DIPAL	National Reformist Party
Labor-Agrarian Party	Renovation Party	Radical Action Party
Nationalist Party	Isthmian Revolutionary Party	Christian Democratic Party
Democratic Action Party		

¹ One reason for the large number of parties is the requirement that only 5,000 signatures are necessary to inscribe a party. No further parties can be inscribed prior to the May election.

² Major Party.

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